United Nations A/60/846/Add.7

General Assembly

Distr.: General
20 June 2006

Original: English

Sixtieth session
Agenda items 46, 118, 120, 122, 124, 128, 129 and 136

Integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic, social and related fields

United Nations reform: measures and proposals

Follow-up to the outcome of the Millennium Summit

Review of the efficiency of the administrative and financial functioning of the United Nations

Programme budget for the biennium 2006-2007

Scale of assessments for the apportionment of the expenses of the United Nations

Human resources management

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Investing in the United Nations: for a stronger Organization worldwide: detailed report

Report of the Secretary-General

Addendum

Updated terms of reference for the Independent Audit Advisory Committee

I. Introduction

1. The General Assembly, in its resolution 60/1 of 16 September 2005, requested the Secretary-General to submit detailed proposals on the creation of an independent oversight advisory committee, including its mandate, composition, selection process and qualification of experts (para. 164 (c)). In a report issued in response to that request, the Secretary-General set out proposed terms of reference for the Independent Audit Advisory Committee (A/60/568, annex III).

06-39703 (E) 230606

2. In its resolution 60/248 of 23 December 2005, the General Assembly decided to establish the Independent Audit Advisory Committee to assist the Assembly in discharging its oversight responsibilities, and requested the Secretary-General to propose its terms of reference, ensure coherence with the outcome of the ongoing review of oversight and report to the Assembly at the second part of its resumed sixtieth session on related resource requirements.

3. The present report updates the proposed terms of reference for the Independent Audit Advisory Committee, arising from the independent external review of governance and oversight, whose findings are also before the General Assembly for consideration (see A/60/883), as well as the results of further consultations. The operation of the new Committee will greatly strengthen the United Nations system of accountability, which has already been addressed in document A/60/846/Add.6.

II. Review of the proposed terms of reference for the Independent Audit Advisory Committee within the comprehensive review of governance and oversight

4. The provisional terms of reference and proposed arrangements for the Independent Audit Advisory Committee, as set out in document A/60/568, were reviewed by the independent Steering Committee and its technical review team within the above-mentioned comprehensive review of governance arrangements, including the independent external evaluation of the auditing and oversight system. Within this process the provisional terms of reference were compared against a broad assessment of audit committee best practice, further reviewed to ensure their coherence with the review of oversight, and updated accordingly.

5. The report on the comprehensive review of governance and oversight (A/60/883) fully endorses the decision made by the General Assembly to establish the Independent Audit Advisory Committee, as an essential component in ensuring the independence and effectiveness of internal and external audit. The report recommends further clarification of the provisional terms of reference in a number of areas, specifically with respect to the number, appointment criteria, terms and compensation of members of the Committee and other operational matters, including the provision of information to the Committee and responding to exceptional requests from the General Assembly. Updated terms of reference are set out in the annex to the present report, reflecting the clarifications and improvements recommended within the review as well as the results of further consultations. Further explanatory details of the main changes to the provisional terms of reference are set out below.

III. Appointment criteria, terms and compensation

6. The composition of the Committee is raised from "five or seven" to 10 members. The rationale for this increase is to enable the Committee to fully address the anticipated volume of work, to facilitate the rotation of an appropriate number of members within the Committee while maintaining continuity of the remaining Committee members, and to facilitate geographic representation. The Committee's members should have contracts of appointment of three years' duration. After the

first three years, one half of the members should be replaced. Such a rotation policy is best practice, and with appropriate transition measures enables continuity of membership while providing for the appointment of new members to the Committee. Appointments may be renewable once, providing a maximum duration of six years. In subsequent reviews of the terms of reference for the Committee, the General Assembly may also consider revising the number of members on the basis of the workloads prevailing at the time (see annex, paras. 2 and 3).

7. Transitional arrangements shall apply for the initial appointments to the Committee. To enable continuity, 5 of the 10 members should be provided with initial non-renewable contracts of six years' duration, and 5 should be provided with initial non-renewable contracts of three years' duration.

8. To ensure coherence with the conclusions of the oversight review, the nomination process for candidates for the Committee will be as transparent as practicable, and all such nominations shall relate the background and experience of candidates to the requirements and criteria set out in the terms of reference. The process of identifying suitable candidates needs to begin very shortly, subject to the decision of the General Assembly.

9. In keeping with the unique international character of the United Nations, the terms of reference have been further clarified to improve the criteria for independence and qualification of nominee to the Committee. Within the independence criteria, as set out in appendix A to the annex, the exclusion clause with respect to the candidature of employees of the Office of Internal Oversight Services and the Board of Auditors has been improved in paragraph 2 (b). Consistent with the other exclusion clauses in appendix A, the text has been amended to restrict on grounds of independence candidates who are employees of any United Nations system oversight body. Employees of the Office of Internal Oversight Services are addressed by the existing clause set out in paragraph 2 (a) of appendix A.

10. The financial thresholds within the criteria for independence have also been updated in response to concerns that the thresholds were too high when applied globally. Accordingly, the threshold for the receipt of compensation from the United Nations by a family member has been reduced from "more than $100,000" to "zero" (appendix A, para. 2 (f)); and the threshold of payments to or receipt of payments from the United Nations in any of the last three fiscal years has been reduced from "the greater of $1 million or 2 per cent" to "the lesser of $1 million or 2 per cent" of the consolidated expenditures or revenues of the company (appendix A, paras. 2 (h) and 2 (i)).

11. The report also identified a weakness in clarity of the experience criteria, as set out in appendix B to annex III to document A/60/568, in particular with respect to the global interpretation of the term "relevant financial experience". A more precise statement of requirements is now set out in appendix B to this report. In paragraph 1, a provision has been added to state that "At least one member should be a professional qualified accountant or auditor". Paragraph 3 now begins: "All candidates for Committee membership must have integrity, objectivity and discipline and have held senior positions in the areas covered by the criteria set out below. The Secretary-General will nominate such individuals who have expertise in at least three of the following criteria." The previous terms of reference required only one of the stated criteria. The criteria themselves have also been improved,

with a new criterion added to better reflect the level of experience required to act efficiently within the United Nations, as follows: "Experience in preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues within United Nation financial statements."

12. While the earlier terms of reference proposed compensation in line with that currently provided to regular members of the Advisory Committee on Administrative and Budgetary Questions, formal compensation is now proposed for all members of the Independent Audit Advisory Committee (the comprehensive review of governance and oversight proposes that the regular members of the Advisory Committee would also receive compensation in future). This is required to attract suitably qualified candidates who comply with the independence criteria as set out in appendix A.

IV. Other operational clarifications

13. Other changes to the terms of reference have been made that are operational in nature and help to further hone the Committee's practices with respect to its interactions with internal and external audit, management and the General Assembly. New provisions have been introduced to maintain free access to the chair of the Committee for the heads of external and internal audit (see annex, para. 9 (d)); to respond to requests from the General Assembly to convene to discuss particular matters (para. 9 (e)); to facilitate inputs from other United Nations organizations, with respect to the coordination of internal audit services for cross-agency activities involving funds for which the Secretary-General is responsible (para. 9 (n)); to review financial system contingency plans for failure, fraud or misuse (para. 9 (r)); to modify the task of reviewing financial statements to facilitate annual or biennial financial statements (para. 9 (s)); to facilitate the provision of information by management to the Committee (para. 9 (u)); and to publish the modified terms of reference for the Committee (para. 9 (y)). Some provisions were also rationalized to avoid unnecessary detail or repetition. The specific provisions of paragraph 9 (i) as presented in document A/60/568 do not appear in the new paragraph 9 (k), as they are covered elsewhere in the updated text, namely in paragraph 8 (f). Furthermore, the activities as set out in paragraph 9 do not include the new activity proposed within the comprehensive review of oversight (A/60/883) to put in place a framework and monitor engagements for the provision of non-audit services by the external auditor, including seeking an annual independence confirmation from the auditor, for both audit and non-audit related work. While this provision may be useful for other United Nations entities that appoint their own external auditors, the Board of Auditors is prohibited from providing additional non-audit services.

V. Resource requirements

14. The comprehensive review of oversight recommends that the members of the Independent Audit Advisory Committee be compensated. The report also recommends that the Committee have a small full-time secretarial support unit. The

resource requirements described below are based on the assumption that the Committee will become operational in January 2007.

Resource requirements

	Resources (thousands of United States dollars)			*Posts*		
Category	*2006-2007 estimate*	*Change*	*Total*	*2006-2007 estimate*	*Change*	*Total*
Regular budget						
Post	—	271.9	271.9	—	3	3
Non-post	—	684.7	684.7	—	—	—
Total	—	**956.6**	**956.6**	—	**3**	**3**

15. The amount of $271,900 would provide for three posts (one D-1, one P-3 and one General Service (Other level)) to provide administrative and logistical support for the work of the Committee. In particular, the secretariat support unit would assist in the preparation of the Committee's quarterly meetings and provide support during and after the meetings. The support unit would also play a logistical liaison role between the Committee, the Office of Internal Oversight Services, the Board of Auditors, management, other oversight bodies and the General Assembly.

16. The estimated requirements under non-post in the amount of $684,700 would provide for (a) non-staff compensation for members of the Independent Audit Advisory Committee for twelve weeks per annum (at $2,044 per week for the Chairman and $1,607 per week for other members) ($198,200); (b) consultancy fees for independent investigations of matters brought to the attention of the committee, and for the assistance of an executive search firm ($170,000); (c) travel and subsistence allowance of expert members of the Committee for the Committee's quarterly meetings ($297,400); and (d) general operating expenses ($19,100), including communications ($4,700); maintenance of office automation equipment (centrally provided network and software support) and other equipment ($9,300); supplies and materials ($400); and the acquisition by the office of automation equipment ($4,700).

VI. Conclusion and recommendations

17. **The General Assembly may wish to take note of the present report and its annex, and to:**

(a) **Approve the terms of reference for the Independent Audit Advisory Committee, as set out in the annex to the present report, including its mandate, composition, selection process and qualification of experts, as explained above, and the associated resource requirements;**

(b) **Appropriate $917,800 under section 1, Overall policymaking, direction and coordination, and $38,800 under section 35, Staff assessment, to be offset by a corresponding amount under income section 1, Income from staff assessment, of the programme budget for the biennium 2006-2007.**

Annex

Updated terms of reference for the Independent Audit Advisory Committee to the United Nations

A. Role

1. The Independent Audit Advisory Committee serves in an expert advisory capacity to the General Assembly. It aims to help the General Assembly better exercise governance responsibilities with respect to the various operations of the United Nations.[a]

B. Composition and selection of expert members

2. The Committee shall be comprised of 10 members, all of whom are independent of the Secretariat of the United Nations and the Governments of Member States. The criteria for independence are set out in appendix A to the present annex. Candidate members are nominated by the Secretary-General, and are subject to the approval of the General Assembly. The appointed Committee members shall select their own Chairperson from within appointed Committee members. Every three years, one half of the Committee membership (i.e. five members) will retire and five new members will be appointed.

3. All of the members should have recent and relevant financial experience. The criteria for financial experience are set out in appendix B to the present annex. Committee membership should reflect a broad geographical distribution and include a balance of representation with public and private sector experience.

C. Meetings and reporting

4. The Committee will meet in closed session at least four times per year. The quorum will consist of any seven members of the Committee. Invitees to the Committee meetings would be limited to those who are familiar with, or responsible for, the topics on the agenda. Such invitees may include representatives of the United Nations Board of Auditors and the Under-Secretary-General for Internal Oversight Services (OIOS). Other members of senior management may attend Committee meetings by special invitation.

5. The Committee will seek to work on the basis of consensus and will maintain its own record of meetings. In the event that consensus is not reached, differences will be noted and appended to the minutes. The Chairman will regularly brief the Secretary-General on the Committee's findings and raise immediately any matter of significant financial impact.

6. The Committee shall prepare an annual report to the General Assembly that describes the work of the Committee in discharging its responsibilities. The Chairman of the Committee shall attend hearings to respond to any questions of Member States on the Committee's activities.

---

[a] At present, it is proposed that this Committee will provide advisory services with respect to the operations of the United Nations, but not its funds and programmes.

7. The Committee shall provide an annual performance evaluation of its work to the General Assembly. The Committee shall review at least every three years the adequacy of the present terms of reference and recommend any necessary changes to the General Assembly for approval.

D. Functions

8. The Committee directly assists the General Assembly in fulfilling governance and oversight responsibilities. Its primary functions are:

(a) To understand the systems of internal control and risk management and challenge compliance with those systems in line with policies and regulations, with particular emphasis on the financial systems and information;

(b) To monitor compliance with corrective action plans following a review of findings on material weaknesses;

(c) To provide comment and input to the workplan of the United Nations Board of Auditors;[b]

(d) To discuss with management and the United Nations Board of Auditors the audited financial statements and monitor the integrity of the financial statements and other such information required by the Committee;

(e) To consider the effectiveness and objectivity of the external audit process;

(f) To review and approve the audit workplan of OIOS, including those cross-agency activities for which OIOS is either solely or jointly responsible;

(g) To review the budget of OIOS and make recommendations to the General Assembly for approval of its budget;

(h) To assess the work of OIOS and the effectiveness and objectivity of the internal audit process, including those cross-agency activities for which OIOS is either solely or jointly responsible;

(i) To advise the General Assembly on the role and effectiveness of the Under-Secretary-General for Internal Oversight Services, and on the recommendations that the Secretary-General may make for the appointment of an Under-Secretary-General for Internal Oversight Services;

(j) To ensure that the United Nations Board of Auditors and OIOS do not encounter any difficulties in the course of their audits, such as restrictions on the scope of their work, restrictions on access to required information or insufficient resources to fully carry out their work. The Committee shall assist in resolving such restrictions and report thereon to the Secretary-General and the General Assembly.

E. Mode of operation

9. The Committee will conduct its business around a standing agenda of items and reports drawn from the terms of reference, for example an updated risk register

[b] Noting that the United Nations Board of Auditors is independent and is solely responsible for the conduct of its audits and will continue to issue its reports to the General Assembly.

and internal and external audit progress reports. The Committee shall conduct its activities as follows:

(a) Provide an open avenue of communication between thé Committee, the United Nations Board of Auditors, OIOS and management, meeting separately with these parties at least annually;

(b) Follow the scope and results of the audit of the United Nations Board of Auditors and OIOS and their cost-effectiveness and report periodically to the General Assembly on its findings;

(c) Examine the single audit principle so as to ensure full compliance therewith;

(d) Maintain free access to the chair of the Independent Audit Advisory Committee for the heads of external and internal audit;

(e) On an exceptional basis, respond to requests from the General Assembly to convene to discuss particular matters;

External auditors

(f) Determine the qualifications and expertise criteria for the selection of candidates to the United Nations Board of Auditors and advise on the extent to which candidates meet those requirements prior to elections to the United Nations Board of Auditors;

(g) Make recommendations on the reimbursement of costs to the United Nations Board of Auditors;

(h) Obtain and review an annual formal activity report from the United Nations Board of Auditors that includes information on its internal quality assurance procedures;

(i) Receive from the Directors of the United Nations Board of Auditors the scope and results of the external audit and any significant findings reported in management letters, which are also to be presented to the Controller and the Under-Secretary-General for Management;

Internal auditors

(j) Ensure that OIOS is adequately resourced and continues to have appropriate standing within the United Nations and keep under review its independence and objectivity;

(k) Review and make recommendations to the General Assembly regarding the mandate and budget of OIOS;

(l) Consider, with the United Nations Board of Auditors and OIOS, management's responsiveness to the auditors' findings and recommendations;

(m) Advise the General Assembly on important issues arising from the annual report of OIOS;

(n) With respect to the role of OIOS in the coordination of cross-agency activities for which the Secretary-General is responsible, request inputs from all the

oversight activities involved within the cross-agency activities to assist in the performance of its functions;

Internal control and risk management

(o) Challenge the effectiveness of the United Nations system of internal control, including financial, operational and compliance controls, and of risk management;

(p) Monitor the risk management procedures together with OIOS and the United Nations Board of Auditors and executive management;

(q) Ensure that OIOS is applying sufficient resources to areas of material concern and of high risk to the Organization and that the OIOS workplan takes into consideration other important oversight trends;

(r) Monitor the robustness of management's financial system contingency plans in the event of failure, fraud or misuse;

Financial reporting

(s) Monitor the integrity of the financial statements on an annual or biennial basis, together with the internal controls of the United Nations;

(t) Evaluate changes in accounting principles to determine the appropriateness of accounting principles and financial disclosure practices;

General issues

(u) Request the necessary management information and reports, which must not be unreasonably withheld, so as to conduct its work in a timely and efficient manner;

(v) Review the coverage of the respective oversight bodies to assure Member States that there are no persistent gaps or inconsistencies;

(w) Retain as appropriate independent professional advice in order to follow up on any matter brought to its attention, within the scope of its duties, and while observing the mandates of the United Nations Board of Auditors and OIOS;

(x) Monitor the adequacy of United Nations arrangements for employees to raise concerns in confidence about possible improprieties relating to accounting, internal accounting controls or auditing matters, as well as for confidential submissions by employees of concerns regarding questionable accounting or auditing matters;

(y) Review and update as necessary its terms of reference at least every three years, recommending any changes to the General Assembly for approval, and evaluate its own performance on a regular basis. The updated terms of reference shall be published.

F. Terms and conditions of service

10. Terms and conditions of service of members of the Committee will be comparable with those of the regular members of the Advisory Committee on

Administrative and Budgetary Questions and the International Civil Service Commission. Owing to their independent status, members will be remunerated by the United Nations for their time in fulfilling their role on the Committee. The duration of service will be limited to a maximum of six years.

G. Secretariat support

11. The Committee shall be supported by a Secretariat.

Appendix A

Criteria for defining the independence of members of the Independent Audit Advisory Committee

1. For a candidate committee member to be considered independent she/he may not have any material relationship[a] with the United Nations, either as an executive officer or significant shareholder of a company that has a relationship with the United Nations, its funds, programmes and specialized agencies.

2. In addition a candidate will not be considered independent, if she/he:

(a) Is or has been an employee of the United Nations within the last three years;

(b) Is or has been a member of a governing or oversight body of any entity within the United Nations system within the last three years;

(c) Is or has been a member of the Government of a Member State within the last three years;[b]

(d) Has an immediate family member [c] who is or has been a senior official[d] of the United Nations within the last three years;

(e) Has an immediate family member who is or has been a senior member of the Government of a Member State within the last three years;

(f) Has received or has an immediate family member who has received during any 12-month period within the last three years any compensation from the United Nations (other than Committee fees);

(g) Has an immediate family member who is or has been within the last three years employed as an executive officer of a company where any of the United Nations present senior management served at the same time on that company's compensation committee;

(h) Is a current employee of a company that has made payments to or received payments from the United Nations in any of the last three fiscal years in excess of the lesser of $1 million or 2 per cent of the consolidated expenditures or revenues of the company;

(i) Has an immediate family member who is a current executive officer of a company that has made payments to or received payments from the United Nations in any of the last three fiscal years in excess of the lesser of $1 million or 2 per cent of the consolidated expenditures or revenues of the company;

(j) Holds any other board mandates or Member State Government appointed position that might infringe on her/his independence;

---

[a] "Material relationship" meaning that payments from the United Nations exceed 2 per cent of the candidate's income or the candidate's company sales or purchases of products and/or services, during the preceding three years.

[b] Former national civil servants are not included within this restriction.

[c] Immediate family member meaning: spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the candidate's home.

[d] Meaning any position at the Assistant Secretary-General level or higher.

(k) Held an interlocking directorship over the past three years between the companies related to the candidate and the United Nations;

(l) Has entered into or accepted directly or indirectly any consulting, advisory or other compensatory fees from the United Nations[e] other than in her/his capacity as a Committee member (compensation for Committee services).

[e] Such as fees, travel expenses or remuneration paid for service on United Nations panels, committees and boards.

Appendix B

Criteria for defining the financial management experience of members of the Independent Audit Advisory Committee

1. The Committee should consist of ten individuals who all have recent and relevant financial experience and expertise as described in paragraph 3 below. At least one member should be a professional qualified accountant or auditor.

2. Committee membership should include a balance of representation with public and private sector experience, noting the independence requirements articulated in appendix A above.

3. All candidates for Committee membership must have integrity, objectivity and discipline and have held senior positions in the areas covered by the criteria set out below. The Secretary-General will nominate such individuals who have expertise in at least three of the following areas:

- Experience in preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues within United Nation financial statements
- Prior membership of an audit committee of a private corporation or public sector body
- Proficiency in internal controls and procedures for financial reporting
- The setting of or compliance with international internal or external audit standards
- The setting of or compliance with international accounting standards.